

Message Text

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PAGE 01 SAN JO 03467 151643Z

46

ACTION ARA-10

INFO OCT-01 ISO-00 EB-07 COME-00 L-03 AID-05 CIAE-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 H-02 AGR-05 TAR-01

NSC-05 SS-15 STR-04 CEA-01 PA-01 PRS-01 /091 W

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 1175

INFO AMEMBASSY MANAGUA

LIMITED OFFICIAL USE SAN JOSE 3467

E.O. 11652: N/A

TAGS: ETRD, EGEN, CS

SUBJECT: POSSIBLE DISCRIMINATORY LEGISLATION - SOFTDRINK TAX

REF: SAN JOSE 2597, STATE 155131 (ALL NOTAL)

1. SUMMARY. COMPROMISE FORMULA HAS BEEN PROPOSED FOR ELIMINATING DISCRIMINATORY ASPECT OF SOFTDRINK TAX BUT REGIONAL COCA-COLA REPRESENTATIVE IS PESSIMISTIC ABOUT PROSPECTS FOR ITS ADOPTION. END SUMMARY.

2. DURING COURTESY CALL ON PRESIDENT OF UNION OF CHAMBERS OF COSTA RICA, EDMOND GERLI INFORMED EMBOFFS THAT AS RESULT HIS AND OTHER CHAMBER PRESIDENTS' EFFORTS CULMINATING WITH MEETING WITH PRESIDENT ODKFER AUGUST 12, COMPROMISE FORMULA WAS AGREED TO BY WHICH PRESIDENT WOULD SIGN LEGISLATION CONTAINING DISCRIMINATORY SOFTDRINK TAX BUT SIMULTANEOUSLY SEND TO SPECIAL SESSION OF ASSEMBLY AMENDMENT TO LAW WHICH WOULD APPLY NEW TAX TO ALL SOFTDRINKS REGARDLESS OF BRAND, WITH RATIONALE THAT

DISCRIMINATORY TAX OF THIS TYPE IS UNCONSTITUTIONAL. GERLY ALSO IMPLIED PROSPECTS FOR PASSAGE OF AMENDMENT FAVORABLE SINCE
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PAGE 02 SAN JO 03467 151643Z

MINISTER OF AGRICULTURE GARRON SALAZAR IS OWNER OF COCA-COLA

BOTTLING PLANTS IN LIMON AND GOLFITO.

3. AT HIS OWN REQUEST, HEINZ HUEBNER, REGIONAL MANAGER OF COCA-COLA FOR CENTRAL AMERICA AND PANAMA, CALLED AT EMBASSY AUGUST 13 TO DISCUSS DISCRIMINATORY TAX. HUEBNER PESSIMISTIC ABOUT PROSPECTS OF SUCCESS FOR COMPROMISE FORMULA, BELIEVING THAT PRESIDENT'S OFFER TO SEND AMENDMENT TO ASSEMBLY IS MERE "SHOW"; DOUBTS AMENDMENT WILL PASS; ALLEGES THAT GARRON AND PRESIDENT HAD VIOLENT ARGUMENT OVER TAX AND THAT GARRON IS NOW WITHOUT INFLUENCE IN REMOVING DISCRIMINATORY TAX. IN GENERAL HUEBNER VIEWED DISCRIMINATORY TAX (AND ALSO PROPOSED LAW TO LIMIT PATENT PROTECTION FOR PHARMACEUTICAL PRODUCTS) AS PART OF CONCERTED, PLANNED CAMPAIGN BY GOCR AGAINST PRIVATE ENTERPRISE IN GENERAL AND FOREIGN PRIVATE INVESTMENT IN PARTICULAR. HUEBNER DOWN-PLAYED UTILITY OF SUGAR PRESSURING GOCR ON DISCRIMINATORY TAX (CONTRARY TO PARA 2, SAN JOSE 2597) STATING CONTRACT WILL BE GIVEN TO NICARAGUA FOR PRICE REASONS SINCE COSTA RICAN CONTRACT WOULD COST COCA-COLA (US) TWO MILLION DOLLARS MORE.

4. HUEBNER ALSO STATES HIS INTENTION TO UNDERTAKE PUBLIC CAMPAIGN TO EMBARRASS PRESIDENT ODUBER ON DISCRIMINATION ISSUE BY BRINGING PROMINENT U.S. JOURNALISTS (SUCH AS "WALL STREET JOURNAL") TO COSTA RICA TO ASK POINTED QUESTIONS ON DISCRIMINATORY TAX WITH REFERENCE TO STATED GOCR OBJECTIVE OF ENCOURAGING FOREIGN INVESTMENT, ADDING, "IF WE GO DOWN, IT MIGHT AS WELL BE IN FLAMES." HE AGREED, HOWEVER, THAT SUCH A CAMPAIGN WOULD NOT BE WISE WHILE PROPOSED AMENDMENT TO LAW PENDING IN ASSEMBLY. IN ANY CASE, HUEBNER MADE IT CLEAR THAT PURPOSE OF CALL WAS TO INFORM EMBASSY OF STATUS OF ISSUE AND NOT TO REQUEST OUR INTERVENTION.

COMMENT. EMBOFF GAINED IMPRESSION THAT HUEBNER HAD GIVEN UP ON RESOLVING ISSUE SATISFACTORILY AND THAT COCA-COLA WOULD SERIOUSLY CONSIDER REMOVING ITS CONCENTRATE OPERATIONS (ACCORDING TO HUEBNER 80 PER CENT OF COSTA RICAN PRODUCTION IS EXPORTED) FROM COSTA RICA IF DISCRIMINATORY TAX IS APPLIED. EMBASSY WILL CONTINUE TO FOLLOW THIS MATTER CLOSELY. TODMAN

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